

FENWICK & WEST LLP
Trends in Terms of Venture Financings
In the San Francisco Bay Area
(First Quarter 2008)

- **Background** – We analyzed the terms of venture financings for 107 companies headquartered in the San Francisco Bay Area that reported raising money in the first quarter of 2008.
- **Overview**

The results of the 1Q08 survey showed a continued increase in the valuations of companies raising venture funding compared to their prior round, but the amount by which valuations increased has declined in each of the past two quarters. The highlights of the quarter are as follows:

- Up rounds exceeded down rounds for the 17th quarter in a row (72% up vs. 19% down, with 9% flat).
- The Fenwick & West Venture Capital Barometer™ showed a 49% average price increase for companies receiving venture capital in 1Q08 compared to such companies' prior financing round. While such increase is certainly healthy, it is the lowest percentage increase since 3Q06.

Other U.S. venture industry related results for the first quarter include the following:

- The amount invested in U.S. venture-backed companies in 1Q08 was approximately \$6.8 billion in 603 transactions, compared to \$7.5 billion invested in 674 transactions in 4Q07. The amount invested in 1Q08 was the lowest amount of investment in a quarter since 4Q06.¹
- An industry sector analysis shows that the decline in venture investment was primarily in the healthcare sector, where \$1.7 billion was invested in 142 transactions in 1Q08, compared to \$2.6 billion in 182 transactions in 4Q07. Within the healthcare sector biopharmaceuticals was responsible for most of the decline.¹
- Acquisitions of venture backed companies in 1Q08 decreased noticeably, with 80 transactions totaling \$7.8 billion, compared to 110 transactions totaling \$15.7 billion in 4Q07. M&A activity in 1Q08 was also below the average of 102 transactions for \$11.5 billion per quarter in 2007.¹
- IPOs of venture backed companies decreased to 6 companies raising \$0.4 billion in 1Q08, compared to 25 IPOs raising \$1.9 billion in 4Q07. This was the lowest amount raised from IPOs in a quarter since 2Q05.¹

- Nasdaq was down 14% for 1Q08 but is up 9% in 2Q08 through June 2.

- Financing Round** – The financings broke down according to the following rounds:

Series	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
A	17%	16%	13%	14%	18%	22%	23%	14%
B	29%	26%	38%	34%	38%	31%	31%	34%
C	22%	27%	28%	25%	20%	23%	24%	28%
D	13%	16%	12%	18%	12%	11%	17%	16%
E and higher	19%	15%	9%	9%	12%	13%	5%	8%

- Price Change** – The direction of price changes for companies receiving financing this quarter, compared to their previous round, were as follows:

Price Change	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
Down	19%	22%	14%	11%	9%	22%	24%	25%
Flat	9%	9%	7%	8%	12%	11%	9%	6%
Up	72%	69%	79%	81%	79%	67%	67%	69%

The percentage of down rounds by series were as follows:

Series	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
B	16%	11%	13%	5%	7%	6%	13%	16%
C	25%	11%	14%	10%	4%	15%	24%	32%
D	29%	47%	8%	17%	0%	42%	38%	14%
E and higher	10%	33%	33%	27%	36%	53%	33%	57%

- The Fenwick & West Venture Capital Barometer™ (Magnitude of Price Change)** – Set forth below is (i) for up rounds, the average per share percentage increase over the previous round, (ii) for down rounds, the average per share percentage decrease over the previous round, and (iii) the overall average per share percentage change from the previous round for all rounds taken together. Such information is broken down by series for Q1'08 and is provided on an aggregate basis for comparison purposes for the prior four quarters. In calculating the “net result” for all rounds, “flat rounds” are included. For purposes of these calculations, all financings are considered equal, and accordingly the results are not weighted for the amount raised in a financing.

Percent Change	Series B	Series C	Series D	Series E and higher	Combined total for all Series for Q1'08	Combined total for all Series for Q4'07	Combined total for all Series for Q3'07	Combined total for all Series for Q2'07	Combined total for all Series for Q1'07
Up rounds	+84%	+53%	+125%	+65%	+78%	+91%	+108%	+99%	+100%
Down rounds	-39%	-20%	-48%	-54%	-36%	-36%	-46%	-46%	-47%
Net result	+61%	+28%	+66%	+43%	+49%	+55%	+79%	+74%	+75%

- **Liquidation Preference** – Senior liquidation preferences were used in the following percentages of financings:

Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
47%	39%	42%	51%	36%	40%	42%	50%

The percentage of senior liquidation preference by series was as follows:

Series	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
B	38%	26%	23%	47%	30%	23%	30%	35%
C	46%	43%	48%	39%	25%	38%	41%	76%
D	36%	53%	69%	65%	50%	58%	57%	36%
E and higher	70%	40%	67%	74%	64%	67%	67%	57%

- **Multiple Liquidation Preferences** - The percentage of senior liquidation preferences that were multiple preferences were as follows:

Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
17%	15%	21%	15%	14%	14%	26%	16%

Of the senior liquidation preferences, the ranges of the multiples broke down as follows:

Range of multiples	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
>1x- 2x	100%	80%	100%	75%	100%	40%	90%	83%
>2x – 3x	0%	20%	0%	25%	0%	60%	10%	0%
> 3x	0%	0%	0%	0%	0%	0%	0%	17%

- **Participation in Liquidation** - The percentages of financings that provided for participation were as follows:

Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
60%	59%	54%	48%	59%	73%	64%	71%

Of the financings that had participation, the percentages that were not capped were as follows:

Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
56%	41%	39%	54%	52%	64%	58%	64%

- **Cumulative Dividends** – Cumulative dividends were provided for in the following percentages of financings:

Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
5%	4%	4%	6%	8%	4%	7%	8%

- **Antidilution Provisions** - The uses of antidilution provisions in the financings were as follows:

Type of Provision	Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
Ratchet	2%	3%	6%	5%	5%	4%	4%	2%
Weighted Average	98%	97%	94%	93%	94%	95%	95%	97%
None	0%	0%	0%	2%	0%	1%	1%	1%

- **Pay-to-Play Provisions** - The use of pay-to-play provisions in the financings was as follows:

Percentages of financings having pay-to-play provisions.

Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
6%	9%	13%	10%	8%	10%	10%	16%

The pay-to-play provisions provided for conversion of non-participating investors' preferred stock into common stock or shadow preferred stock, in the percentages set forth below:

- Common Stock.

Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
67%	89%	57%	77%	89%	73%	50%	86%

- Shadow Preferred Stock.

Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
33%	11%	43%	23%	11%	27%	50%	14%

- **Redemption** – The percentages of financings providing for mandatory redemption or redemption at the option of the venture capitalist were as follows:

Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
20%	21%	26%	22%	26%	22%	29%	33%

- **Corporate Reorganizations** - The percentages of post-Series A financings involving a corporate reorganization were as follows:

Q1'08	Q4'07	Q3'07	Q2'07	Q1'07	Q4'06	Q3'06	Q2'06
5%	5%	9%	3%	9%	6%	5%	12%

For additional information about this report please contact Barry Kramer at 650-335-7278; bkramer@fenwick.com or Michael Patrick at 650-335-7273; mpatrick@fenwick.com at Fenwick & West. To be placed on an email list for future editions of this survey please go to www.fenwick.com/vctrends.htm. The contents of this report are not intended, and should not be considered, as legal advice or opinion.

¹ Information in this paragraph obtained from Dow Jones VentureSource.